

Chapter 8

CONSUMPTION AND THE CONSUMER SOCIETY

Microeconomics in Context (Goodwin, et al.), 4th Edition

Chapter Overview

This chapter presents the standard economic model of consumer behavior. We explain the notion of consumer sovereignty, show how to graph a budget line, and explain the rule for utility maximization derived from marginal thinking.

We set this standard material in context by then moving on to different perspectives on consumer behavior. First, we consider the historical context of consumer behavior. Then we consider the social and environmental contexts of modern consumer society. Finally, we explore the relationship between consumerism and well-being, and discuss options for public policy.

Objectives

After reading and reviewing this chapter, you should be able to:

1. Draw a budget line and a utility function.
2. Discuss how marginal thinking can be used to maximize consumer utility.
3. Discuss the historical and international contexts of consumer society.
4. Explain the implications of the social context for consumer behavior.
5. Describe the link between consumption and the environment.
6. Evaluate the relationship between consumption and well-being.
7. Discuss policy options for influencing consumer behavior.

Key Term Review

consumer sovereignty

budget line

utility function (total utility curve)

consumer society

absolute deprivation

reference group

ecological footprint

ecolabeling

voluntary simplicity

living standard (or lifestyle) goals

utility

diminishing marginal utility

consumerism

relative deprivation

aspirational group

green consumerism

subjective well-being (SWB)

Active Review

Fill in the blank

1. The idea of consumer sovereignty holds that _____ is the ultimate economic goal.
2. A group to which a consumer wishes he or she could belong to is a(n) _____ group.
3. A _____ line shows all the combinations of two goods that a consumer can purchase, given his or her monetary resources and the prices of the two goods.
4. The idea that a consumer's additional utility from successive units of a good tends to decrease is known as _____.
5. The feeling of lack that comes from comparing oneself with someone who has more is known as _____.
6. Annual advertising expenditures in the United States are equivalent to \$_____ per person.
7. The practice of reducing one's overall level of consumption in order to reduce their environmental impacts is referred to as _____.
8. A conscious decision to live with a limited or reduced level of consumption is known as _____.

True or False

9. Economic research has shown that one's income level has no effect on one's happiness.
10. Shallow green consumerism means a consumer will choose ecofriendly products, but not necessarily reduce his or her overall level of consumption.
11. Renee allocates her income between soup and nuts. If the price of soup increases while the price of nuts remains constant, Renee's budget line will shift inward to a new, parallel budget line.
12. John allocates his income between bows and arrows. Suppose that a graph of his budget line shows quantity of bows on the horizontal axis and quantity of arrows

on the vertical axis. If the price of bows decreases, John's budget line pivots outward to a new line with a shallower slope.

13. According to the traditional model, consumers maximize utility by purchasing an equal amount of each good that provides utility.
14. Having aspirational groups tends to reduce people's level of consumerism.
15. People in countries with higher incomes tend to be more happier, on average, than people who live in poorer countries.

Short Answer

16. Explain why a utility curve becomes flatter as consumption levels increase.

17. What is the difference between absolute and relative deprivation?

18. Summarize the evidence on whether money buys happiness.

Questions #19 and #20 are based on material covered in the Appendix to Chapter 8.

19. Briefly define the concept of an "indifference curve," and illustrate it with an example.

20. Explain why indifference curves are generally drawn as a curve that is bowed in toward the origin.

Problems

1. Joel has \$10 to spend on some combination of roses and daisies. Roses cost \$1 each, and daisies cost \$2 each.

a. Draw Joel's budget line, putting daisies on the vertical axis.

b. If Joel buys four daisies, how many roses can he buy?

2. Continuing the example from above, now suppose that Joel's income increases from \$10 to \$12. Sketch the budget line from Problem #1 and then show the change to the new budget line.

3. Continuing with the same example, suppose that Joel takes his \$12 to the flower shop and discovers that someone else just bought almost all the roses and daisies in the shop. Only 4 roses and 2 daisies remain in the shop, so that's all Joel can buy.
 - a. Show this consumption combination on the graph. Does it fall to the left or right of the budget line?

 - b. The next day, Joel goes back to the store with his \$12 and this time there are plenty of roses and daisies available for purchase. However, the price of roses has increased to \$2. Show the budget line before the price change, and then the resulting change in Joel's budget line.

4. Jenny divides her income between corn and beans. She has a total of \$100. Beans cost \$10 per sack, and corn costs \$20 per sack.
- Draw Jenny's budget line, with beans on the vertical axis.
 - The price of both beans and corn decreases by 50%, to \$5 and \$10 respectively. Draw the change in Jenny's budget line on the graph in part (a).
 - What other event could have produced the change you diagrammed in your answer to part b?

Self Test

1. The other consumers whose consumption choices help you decide what to buy are
 - a. your reference group
 - b. your support group
 - c. your self-actualization group
 - d. your budget reference
 - e. your reference point

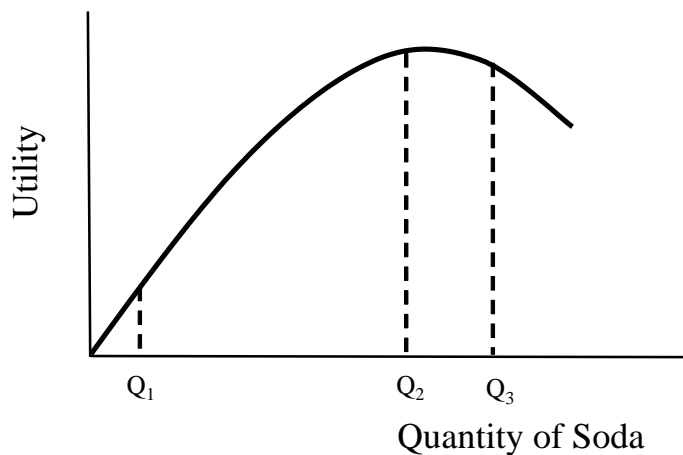
Questions # 2 and # 3 refer to the budget line graph below.



2. Dorothea has to allocate her budget between groceries and rent. Which of the following combinations can Dorothea afford?
 - a. 6 weeks of rent and 20 bags of groceries
 - b. 6 weeks of rent and 10 bags of groceries
 - c. 1 week of rent and 25 bags of groceries
 - d. 5 weeks of rent and 18 bags of groceries
 - e. 6 weeks of rent and no groceries
3. Dorothea has to pay for a trip to the emergency room when her niece has an asthma attack. Now she has less money for groceries and rent. What happens to her budget line?
 - a. The slope increases.
 - b. The slope decreases.
 - c. The budget line does not change.
 - d. The budget line shifts toward the origin while the slope does not change.
 - e. The budget line pivots to the right.

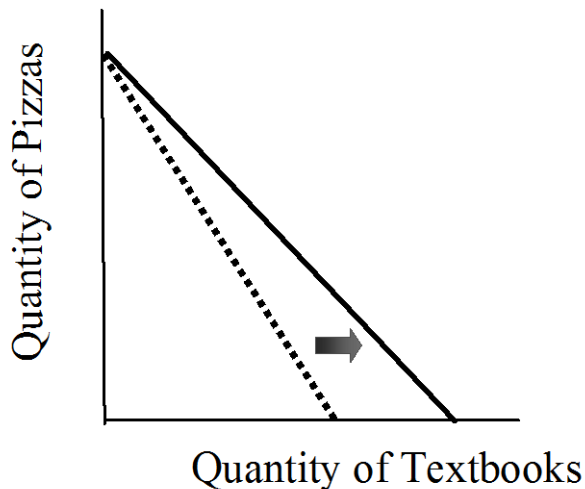
4. Which of the following is an example of relative deprivation?
- Three teenagers spend their allowances on new clothes.
 - Sam can't afford to get trendy clothes like his 9th grade classmates.
 - A child gets sick because he doesn't have enough to eat.
 - A wealthy donor withdraws support from the local school system.
 - A community cannot afford to obtain vaccines against yellow fever.
5. Jane allocates her income between candy and soda. Something happens that causes her budget line to shift toward the origin without a change in slope. What could have caused this change?
- Jane's income decreased.
 - The price of both candy and soda increased by the same percentage.
 - The price of candy increased.
 - Jane decided to buy more of both goods.
 - Both a and b are true.
6. Consumer sovereignty is the idea that
- Businesses should be consumer-oriented.
 - Consumers should be independent of the government.
 - Consumer satisfaction is the ultimate economic goal.
 - It's important to the economy for consumers to be employed independently.
 - Both a and c.

Question #7 refers to the following graph.



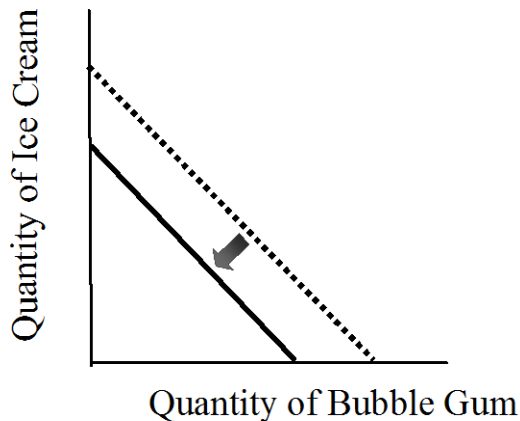
7. The graph above shows the utility function of a student consuming bottles of soda. Which of the following statements is *false*, based on the information in this graph?
- The marginal utility of an additional can of soda in the region from Q_1 to Q_2 is positive.
 - Diminishing marginal utility first occurs at Q_3 .
 - Soda consumption is characterized by diminishing marginal utility.
 - Marginal utility is greater at Q_1 than at Q_2 .
 - At Q_3 , an additional bottle of soda makes the student feel worse, not better.

Question #8 refers to the following graph.



8. Marnie allocates her income between pizzas and textbooks. The graph above shows Marnie's budget line. Which of the following events could produce the shift from the dotted line to the solid line?
- A decrease in the price of textbooks
 - An increase in the price of textbooks
 - An increase in the price of pizzas
 - A decrease in the price of pizzas
 - Marnie signing up for a class that requires her to buy more textbooks

Question #9 refers to the following graph.



9. James allocates his income between bubble gum and ice cream. The graph above shows James' budget line. Which of the following events could cause James' budget line to shift inward, from the dotted line to the solid line?
- A decrease in James' income.
 - An increase in James' income.
 - An increase in the price of bubble gum relative to ice cream.
 - An increase in the price of one good and a decrease in the price of the other.
 - None of the above.
10. According to the textbook, which of the following changes has tended to accompany and facilitate increased consumption?
- Increase in consumer credit.
 - Decrease in advertising revenues.
 - Increase in labor union power.
 - Increase in political freedom.
 - Reduction in government spending.
11. A consumer society is best described as one in which ...
- people have enough money to buy consumer goods and services.
 - people form reference and aspirational groups.
 - people derive their sense of identity largely through consumer goods and services.
 - consumer institutions such as credit, advertising, and regulations are fully developed.
 - consumer impacts are environmentally unsustainable.

12. Suppose someone from a middle-class neighborhood feels poor driving through an upscale neighborhood. This is an example of ...
- shallow green consumerism
 - deep green consumerism
 - absolute deprivation
 - relative deprivation
 - subjective well-being
13. Which one of the following is not an institution that promotes greater levels of consumerism?
- Advertising
 - Department stores
 - Consumer credit
 - Higher incomes
 - Consumption taxation
14. The consensus is that the origins of the consumer society as a mass phenomenon can be identified as ...
- the United States in the 18th century
 - Western Europe in the 18th century
 - the United States in the early 20th century
 - Western Europe in the 16th century
 - Asia in the 19th century
15. Suppose a consumer decides not to purchase an automobile to reduce her environmental impacts. This is an example of ...
- shallow green consumerism
 - deep green consumerism
 - absolute deprivation
 - relative deprivation
 - subjective well-being
16. Which statement below best describes the relationship between money and happiness?
- Higher income is associated with lower levels of happiness, at an increasing rate
 - Higher income is associated with lower levels of happiness, at a decreasing rate
 - Higher income is associated with higher levels of happiness, at an increasing rate
 - Higher income is associated with higher levels of happiness, at a decreasing rate
 - Income is unrelated to levels of happiness

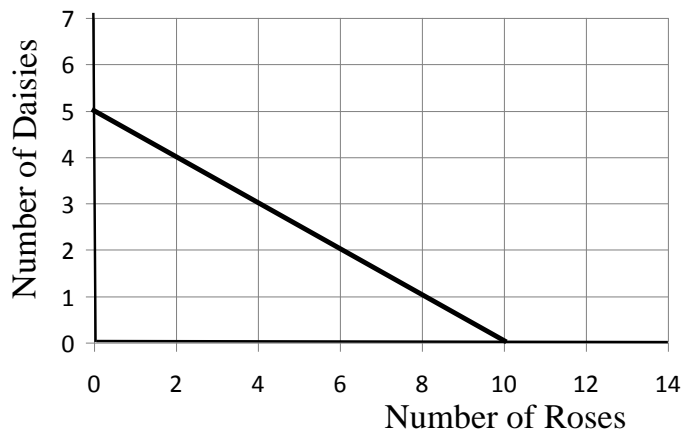
17. Reducing one's level of consumption in order to increase the quality of life is known as ...
- relative deprivation
 - absolute deprivation
 - emotional well-being
 - self-conceptualization
 - voluntary simplicity
18. Which one of the following statements is false?
- Within one country people with higher incomes tend to be happier.
 - In general, over time as a country becomes richer average happiness levels tend to increase.
 - People who live in richer countries tend to be happier, on average, than people who live in poorer countries.
 - The relationship between income levels and subjective well-being tends to be linear.
 - People who are materialistic tend to have lower happiness levels.
19. (Appendix) What is the slope of an indifference curve?
- $-P_x / P_y$
 - $-MU_x / MU_y$
 - $-MU_x / P_y$
 - $-MU_y / P_x$
 - $-P_y / P_x$
20. (Appendix) The rule for utility maximization states that consumers maximize their utility when ...
- The marginal utility spent on the last unit of each good is equal to price.
 - The marginal utility of all goods is equal.
 - The marginal utility on all goods is diminishing per dollar.
 - The marginal utility per dollar is equal across all goods.
 - The marginal utility per dollar is maximized across all goods.

Answers to Active Review Questions

1. consumer satisfaction
2. aspirational
3. budget
4. diminishing marginal utility
5. relative deprivation
6. 600
7. deep green consumerism
8. voluntary simplicity
9. False
10. False
11. False. Her budget line will rotate, not shift.
12. True
13. False
14. False
15. True
16. A utility curve becomes flatter as consumption levels increase because of diminishing marginal utility. Each successive unit of consumption provides a smaller increase in utility. Thus the utility curve rises by a smaller amount with each additional unit of consumption.
17. Absolute deprivation is an inability to meet basic needs. One –third of humanity suffers from absolute deprivation, most of them in developing countries. Relative deprivation is a feeling of lack that comes from comparing oneself to others who have more, and can occur even among those with relatively high incomes.
18. Higher income levels tend to be associated with higher subjective well-being, but at a decreasing rate. This is consistent with the idea of diminishing marginal utility. Research indicates that “emotional well-being” – focusing on the positive and negative emotions people experience n a daily basis – also increases with income, at a decreasing rate, but only up to a point. At an income level of \$75,000, in the United States, further increases in income did not improve emotional well-being.
19. An indifference curve shows the combination of two goods with which a consumer would be equally satisfied. For example, a consumer might theoretically be equally satisfied with one ice cream cone and seven cookies, or with three cookies and two ice cream cones.
20. The shape of the indifference curve reflects the assumption that the consumer experiences diminishing marginal utility for both goods in question.

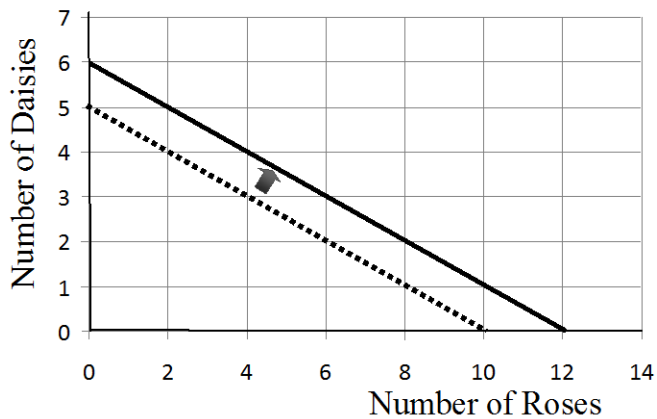
Answers to Problems

1. a.

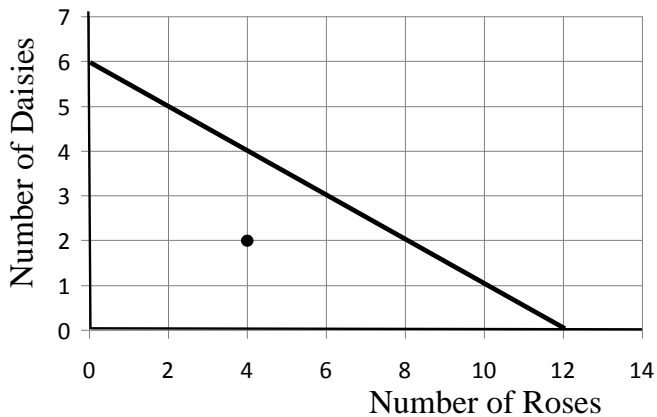


1. b. After spending \$8 ($= 4 \times \2) on daisies, Joel has enough left to buy 2 roses.

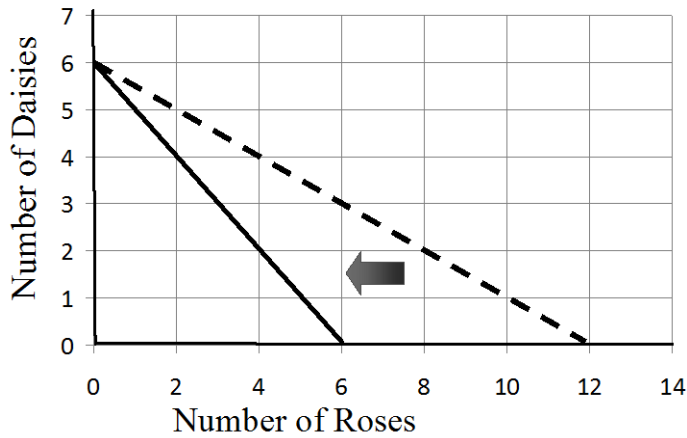
2.



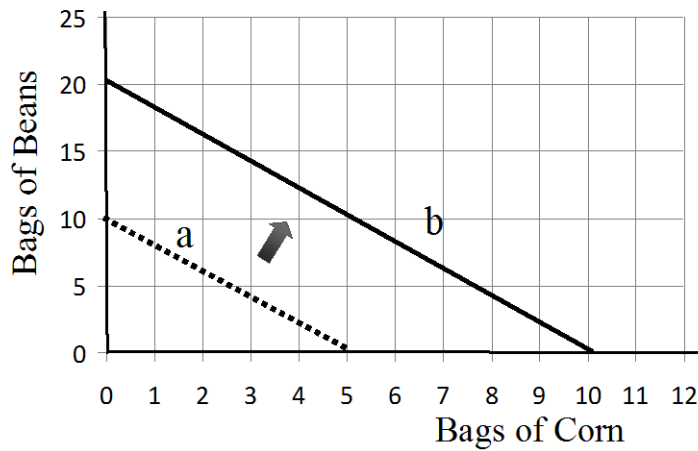
3. a. This consumption combination, shown as a point, falls well to the left of the budget line.



3. b.



4. a and b



4. c. An increase in Jenny's income from \$100 to \$200 would have produced the same change.

Answers to Self Test Questions

- | | |
|-------|-------|
| 1. a | 11. c |
| 2. e | 12. d |
| 3. d | 13. e |
| 4. b | 14. b |
| 5. e | 15. b |
| 6. c | 16. d |
| 7. b | 17. e |
| 8. a | 18. d |
| 9. a | 19. b |
| 10. a | 20. d |